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SUBJECT: LATVIA'S ECONOMIC CRISIS LEADS TO POLITICAL
DISPUTE OVER HEALTH AS PEOPLE,S PARTY ATTEMPTS A MAKE-OVER

¶1. (U) Summary: Implementation of austerity budget cuts have revealed intense divides within Latvia,s governing coalition. A particularly divisive political battle intensified in July over cuts in the public health sector, pitting Prime Minister Dombrovskis, and his New Era party, against the Minister of Health, Baiba Rozentale, and the People's Party. While a compromise has been reached, the political struggle continues, and is likely to heat up as People,s Party attempts to take advantage of the unpopularity of the austerity measures. End summary.

¶2. (U) Budget cuts, required as part of Latvia,s international loan package, have resulted in a divisive, public dispute between the Prime Minister,s New Era party and the People's Party over budget austerity measures. In July, after replacing the previous Minister of Health, new Minister, Baiba Rozentale (People,s Party) immediately demanded that funding (USD 100 million) be restored to avoid a collapse of the public health sector. She then announced several hospital closures along with a reduction in emergency medical services, which led to a few small street protests. Dombrovskis accused her of making excessive cuts to hospitals rather than strategically cutting the ministry's budget. Stating that has she has been unable to explain the rationale for the severe cuts, Dombrovskis implicitly accused her of manufacturing a political crisis for the benefit of her party.

¶3. (U) On August 7, the PM and MOH announced a compromise deal to allocate some additional money to the health sector and hold weekly meetings to identify structural reforms to preserve essential services. Part of this additional financing will come from a World Bank Development Policy Lending program targeting social safety net and public administration reform. This loan (USD 250 million) allocates 25 percent, or USD 62.5 million, to the health sector. Another 25 percent is earmarked for education with the rest reserved for other social services (40 percent) and public administration (10 percent).

¶4. (SBU) It remains to be seen, given the intensity of the political debate over health care reform, whether sustainable restructuring will be possible. The health care sector debate is merely the most public of a series of political battles being waged over the budget cutting process across ministries. Latvian newspaper editorial pages continue to speculate about the inability of New Era and the People's Party to cooperate on the 2010 budget process. This uncertainty is fueling growing concerns that Latvia's governing coalition will fail to produce a 2010 budget.

¶5. (U) Public statements by leaders of both parties continue to inflame the situation. Despite a conciliatory public tone, Dombrovskis admits that the 2010 budget "will be a test to show the political will of the parties." When asked to speculate about whether or not the People's Party will attempt to bring down the current government Dombrovskis

warned against "Destructive activities (that) have already left a negative impact on Latvia's international image." In response, People's Party Chairman, Mareks Seglins, has publicly threatened that not listening to his party "could end badly" for the governing coalition.

¶6. (SBU) Comment: The People's Party, which has seen its popularity plummet to well below the 5 percent minimum to gain seats in parliament, is clearly trying to re-position itself for the 2010 elections. Most analysts expect the party, which is widely blamed for the current economic crisis, to lose a majority of its seats in the next elections. With dim prospects for the future, People,s Party has little to lose by seeking to take advantage of growing unhappiness with the breadth and depth of the budget cuts. Many (both in and out of politics) believe that People,s Party is seeking to cast itself as an opposition party that has stood up for the common man in the face of economic catastrophe. While it seems doubtful that voters will buy this make over, a lot can happen between now and next spring,s elections. End comment.
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